

Introduction

As part of the North Wenatchee master plan effort, it is necessary to establish a 'business case' for public expenditures in key infrastructure projects that are likely to stimulate substantial private investment. The following business case analysis evaluates the value and benefits of private development created versus the cost of public infrastructure improvements by the city, Washington Department of Transportation and Chelan PUD necessary to stimulate private development within the plan area. This memorandum will discuss the preferred site program, values versus costs, stabilized occupancy benefits, and phased taxes and wages by year.

That said, this is a draft intended not to provide a final answer, but as a work in progress in which the assistance of staff and stakeholders is needed. This document is provided to spur discussion and, after review, it will be revised.

The North Wenatchee Plan Site Program and Phasing

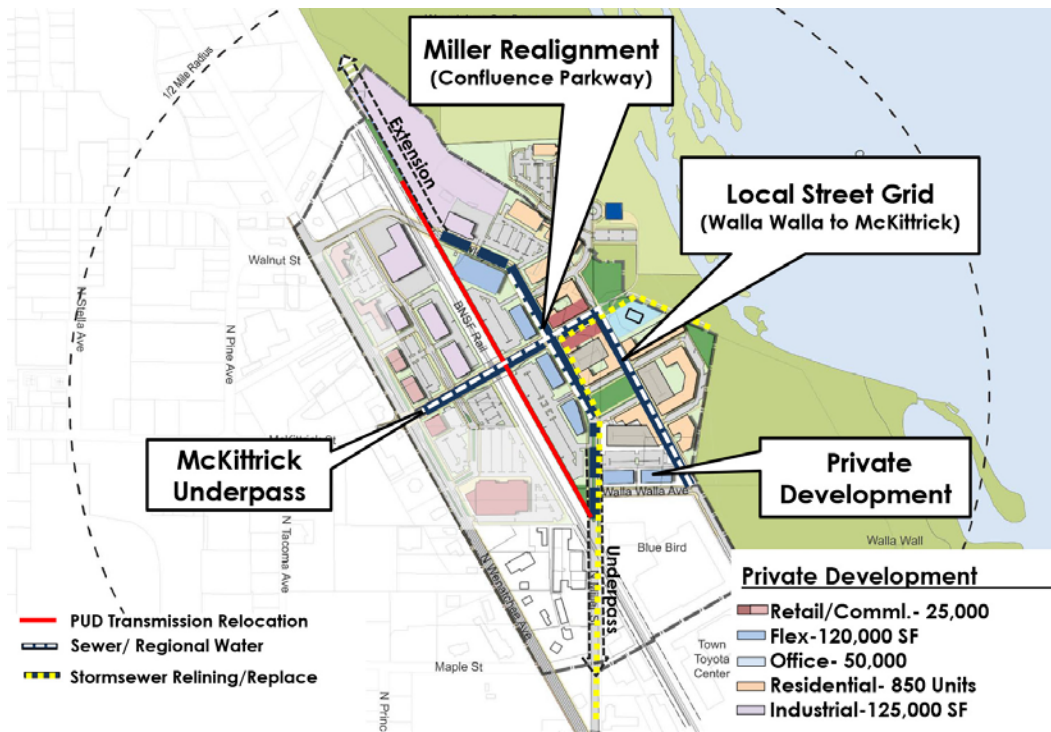
The site program assumes two development phases, shown below and illustrated on the following page. The first phase of private development follows upon the planned signalized intersection and street improvements to Wenatchee Boulevard and McKittrick Street. The second phase of private development follows the realignment of Miller Avenue, local street grid improvements, the McKittrick underpass and infrastructure/utilities improvements. Private development can be started before completion of the McKittrick underpass public, but no development commitments are likely until the funding is in place for the McKittrick underpass which is critical for site access.

Private Development Program	
Phase 1—5 year Build-Out	Square Feet
Hotel	50,000
Retail	100,000
Industrial	15,000
Phase 2— 15 Year Build-Out	
Retail/Commercial	25,000
Flex	120,000
Office	50,000
Residential 850 Units	680,000
Industrial	125,000

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PHASE I- Public Improvements and Private Development (Five Year Schedule)



PHASE II- Public Improvements and Private Development (Five to Fifteen Year Schedule)

The program is designed to stay within projected need for each land use.

- The residential uses assume absorption of ±39 percent of total MSA demand for attached and multi-family housing options.
- Wenatchee employment space needs to 2024, calculated from State of Washington projections at ±870,000 square feet, ±550,000 square feet for non-office uses and ±320,000 square feet for office uses. This program uses 310,000 square feet for employment space, or approximately 35 percent of demand.
- Retail space need is calculated on growth in population and income, and based on State of Washington projections of population, by 2040 there will be demand for between ±500,000 to ± 850,000 square feet of space. The program identifies a realistic capture of 125,000 square feet of retail.

The single caveat here is in Phase I where the amount of retail calculated from five-year ESRI projections is ±236,000 square feet for the MSA. Capture needed to support this is ±42 percent, an aggressive assumption, but one that seems possible for new retail given the condition of the existing retail along Wenatchee Boulevard and the planned McKittrick intersection improvements that will provide signalization and improved access to retail development sites.

Private Investment Cost and Value Created

Cost and value for new private development identified in the site program are presented in the following table.

Private Investment			
Phase I—5 year Build-Out	SF Use	Cost	Value
Hotel	50,000	\$14,961,300	\$16,169,900
Retail	100,000	\$13,146,300	\$23,333,333
Industrial	15,000	\$1,871,100	\$1,976,188
Total Phase 1		\$29,978,700	\$41,479,421
Phase II— 15 Year Build-Out			
Retail/Commercial	25,000	\$4,656,500	\$8,166,667
Flex	120,000	\$15,809,500	\$15,809,500
Office	50,000	\$9,446,300	\$12,666,667
Residential 850 Units	680,000	\$118,628,600	\$148,285,688
Industrial	125,000	\$15,592,500	\$15,592,500
Total Phase 2		\$164,133,400	\$200,521,021
Private Investment		\$194,112,100	\$242,000,442

Public Investment Necessary to Stimulate Private Investment

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Public investment via grants and city funding is shown in the next table.

Public Investment			
Phase I	Cost	Grant	City Funds
McKittrick-Wenatchee Imps.	\$2,860,274	\$2,044,315	\$815,959
Phase II	\$9,538,171	\$8,065,768	\$1,472,403
<i>Miller Realignment</i>	<i>\$3,575,961</i>	<i>\$2,843,558</i>	<i>\$732,403</i>
<i>PUD Trans Relocation</i>	<i>\$500,000</i>	<i>\$500,000</i>	<i>\$-</i>
<i>Storm Trunkline</i>	<i>\$1,662,210</i>	<i>\$1,662,210</i>	<i>\$-</i>
<i>Walla Walla Extension</i>	<i>\$3,800,000</i>	<i>\$3,060,000</i>	<i>\$740,000</i>
Phase 2 McKittrick Underpass	\$25,000,000	\$22,500,000	\$2,500,000
Public Expenditures	\$37,398,445	\$32,610,083	\$4,788,362

The tables illustrating costs and values are in constant dollars and are therefore conservative. We estimate that the program may take as long as fifteen years for full buildout, and by that time costs and values will have increased. If this information were prepared for a Tiger grant, costs and values over time would be inflated and then discounted to provide a net value and the ratio of private investment to public expenditures would likely increase. The next table shows how much private investment is likely to occur in relation to a dollar of public spending.

	Value of Private Investment / \$1 of Public Expense			
	Cost All Phases	Phase I	Phase II	All Phases
Total Private to Public	5.2	14.5	5.8	6.5
Private to City	40.5	50.8	50.5	50.5
Private to Grants	6.0	20.3	6.6	7.4

What this table shows is that for Phase I each public dollar spent results in ± \$14.50 of private investment. For Phase II total private investment is ± \$5.80 for every public dollar spent.. For the city an investment of local funds returns a project that yields ± \$50 per each City of Wenatchee dollar.

Determining Benefits

To determine the local benefits associated with phased build-out of the plan area, we developed a simplified cost model for the project components, illustrated in the following tables. It is simplified and represents the preferred build-out development scenario including the mix of uses, and likely financing for public improvements necessary to make the area attractive for private development in the near term (1 to 5 years) and over time (up to 15 years).

Simplified Cost Model

The first table takes floor area ratio to calculate land needed per square foot of use. The land is then multiplied by the average cost per land square foot privately owned land and buildings currently on the site, with an addition of ± 60 percent to cover for site work, demolition or other unforeseen site problems. Average site value had to be used because there is no way to know definitively what pricing will emerge as the master plan proceeds.

Shell cost in the table is derived from RS Means construction data adjusted for the Wenatchee economy. This is added costs for design, approvals fees, short term financing costs, etc. as soft costs. The total on the right shows the expected cost per square foot for each building type in the project.

We do not claim that the costs shown are infallibly accurate and part of the mission of this memorandum is to appeal to those with local knowledge as to the accuracy of these estimates. In particular, the cost of industrial and flex space may differ and we seek to know whether the shell cost can be lowered.

Cost by Use Type

	FAR	Land Req	Land/Site	Shell	Soft	Total
Retail Large	0.5	2.00	\$15	\$93	\$23	\$131
Retail Small	0.5	2.00	\$15	\$99	\$25	\$139
Retail in MU	0.5	2.00	\$15	\$137	\$34	\$186
Office	0.3	3.33	\$25	\$132	\$33	\$189
Apt Low	0.4	2.50	\$18	\$125	\$31	\$174
Apt High	0.4	2.50	\$18	\$137	\$34	\$190
Industrial	0.25	4.00	\$29	\$76	\$19	\$125
Flex	0.3	3.33	\$25	\$86	\$21	\$132

Determination of Lease Rates

To determine leasing rates that are the basis for valuing development the next table takes leasable percentage typical for the building type and calculates a loaded building cost per leasable square foot. Then return on asset for the use type determines a minimum rent for feasibility.

	Leasable	Per Leased SF	Req. ROA	Min Rent	Per Mo.	Max Rent
Retail Large	100%	\$131	8.0%	\$10.52	\$0.88	\$17.50
Retail Small	100%	\$139	8.0%	\$11.09	\$0.92	\$17.50
Retail in MU	85%	\$219	8.0%	\$17.53	\$1.46	\$24.50
Office	85%	\$222	7.5%	\$16.67	\$1.39	\$19.00
Apt Low	80%	\$218	6.5%	\$14.17	\$1.18	\$15.00
Apt High	80%	\$237	6.5%	\$15.43	\$1.29	\$16.80
Industrial	100%	\$125	7.5%	\$9.36	\$0.78	\$9.36
Flex	100%	\$132	7.5%	\$9.88	\$0.82	\$9.88

Maximum rents are not fixed but are based upon existing trends in the area that may be achievable over time as the project establishes its market. These estimates of leasing are used to determine project value so that we can then calculate the benefits to the city in terms of taxes and future wages. These are shown by phase in the following tables.

Public Benefits from Private Development

PHASE I—Impact on Local Tax Revenue, Employment, and Wages

Phase I includes private development concentrated along Wenatchee Avenue and located between Hawley Street and the WSDOT parcel (approximately 300' south of the McKittrick intersection). On stabilized occupancy it is expected to return approximately \$777 thousand in taxes, generate almost \$15 million in construction employment, and yield ± \$13.4 million in wages annually upon full occupancy. The table shows 20 years of revenue after stabilized occupancy has been achieved. Estimates of taxes and wages are in constant dollars and are not discounted for the 20-year estimates.

Public Benefits from Private Development

Phase 1			
Value on Tax Rolls			\$41,479,421
Construction Cost			\$29,978,700
Retail Space			100,000
Retail Sales	at Sales of	\$180 per SF	\$18,000,000
Industrial Space			15,000
Hotel			50,000
Permanent Jobs Ret.	4/1000	100,000	400
Permanent Jobs Ind.	3/1000	15,000	45
Permanent Jobs Hot.	1/1500	50,000	33
Personal Income from Retail & Hotel	\$27,500		11,907,500
Personal Income from Ind.	\$34,100		1,534,500
Construction Jobs	Labor at 50% of Cost		403
Construction Job Earnings at Average Wage of		\$37,150	\$14,989,350
City Sales Tax	1.9%		\$342,000
Property Tax	10.5	per \$1000	\$435,534
Annual Revenue to City			\$777,534
20 Year Tax Revenue from Stabilized Occupancy			\$18,892,029
20 Year Wage Employment at Stabilized Occupancy			\$326,605,245

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PHASE II—Impact on Local Tax Revenue, Employment, and Wages

Benefits for Phase II are shown in the following table.

Benefits from Private Development

Phase II			
Value on Tax Rolls			\$200,521,021
Construction Cost			\$164,133,400
Retail Space			25,000
Retail Sales	\$250	per SF	\$6,250,000
Flex			\$120,000
Office			\$50,000
Industrial Space			15,000
Permanent Jobs Ret.	4	per 1000 SF	100
Permanent Jobs Flex	2.5	per 1000 SF	300
Permanent Jobs Office	4.0	per 1000 SF	200
Permanent Jobs Industrial	3.0	per 1000 SF	45
Personal Income from Retail	\$22,000		2,200,000
Personal Income from Office	\$48,000		9,600,000
Personal Income from Ind/Flex	\$40,000		13,800,000
Construction Jobs		Labor at 50% of Cost	2,209
Construction Job Earnings at Average Wage of		\$37,150	\$82,066,700
City Sales Tax	1.9%		\$118,750
Property Tax	10.5	per \$1000	\$2,105,471
Annual Revenue to City			\$2,224,221
20 Year Revenue from Stabilized Occupancy			\$57,347,788
20 Year Wage Employment from Stabilized Occupancy			\$622,012,667

It should be noted that the two phases, taken together, generate close to ± \$950 billion dollars in wages annually upon stabilized occupancy, dwarfing the other potential benefits for the city. This is because the site programs are heavily weighted toward employment use to create a unique mixed-use community in the region.

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Comparison of Local Tax Revenue and Wages

The next table illustrates taxes and wages by phases and years. Stabilized occupancy for Phase II is achieved in year fifteen from the inception of the study, or 2031. Wages and taxes increases for inflation were assumed at two percent per year.

Taxes and Wages Phased 20 years					
Phase I	2017	2018	2019	2020	2021
Taxes	\$-	\$259,178	\$388,767	\$777,534	\$793,085
Wages	\$-	\$4,480,667	\$6,721,000	\$13,442,000	\$13,710,840
Phase II					
Taxes	\$-	\$-	\$-	\$-	\$-
Wages	\$-	\$-	\$-	\$-	\$-
Phase I	2022	2023	2024	2025	2026
Taxes	\$808,946	\$825,125	\$841,628	\$858,460	\$875,629
Wages	\$13,985,057	\$14,264,758	\$14,550,053	\$14,841,054	\$15,137,875
Phase II					
Taxes	\$222,422	\$444,844	\$667,266	\$889,688	\$1,112,111
Wages	\$2,560,000	\$5,120,000	\$7,680,000	\$10,240,000	\$12,800,000
Phase I	2027	2028	2029	2030	2031
Taxes	\$893,142	\$911,005	\$929,225	\$947,810	\$966,766
Wages	\$15,440,633	\$15,749,445	\$16,064,434	\$16,385,723	\$16,713,437
Phase II					
Taxes	\$1,334,533	\$1,556,955	\$1,779,377	\$2,001,799	\$2,224,221
Wages	\$15,360,000	\$17,920,000	\$20,480,000	\$23,040,000	\$25,600,000
Phase I	2032	2033	2034	2035	2036
Taxes	\$986,101	\$1,005,823	\$1,025,939	\$1,046,458	\$1,067,387
Wages	\$17,047,706	\$17,388,660	\$17,736,434	\$18,091,162	\$18,452,985
Phase II					
Taxes	\$2,268,705	\$2,314,079	\$2,360,361	\$2,407,568	\$2,455,719
Wages	\$26,112,000	\$26,634,240	\$27,166,925	\$27,710,263	\$28,264,469

The phased table illustrates the substantial benefits of the project even before stabilized occupancy is reached for Phase II. Part of the impetus for site design and choice of land uses was the stated desire of the city to leverage the value of this site as an economic development initiative. Assuming the relative accuracy of what is presented here, we feel that the site program does achieve this goal.